

# ENERGY

## Overview

**Background.** Several agencies play a role in developing, implementing, and managing the state's energy-related policies. These include the:

- **California Energy Commission.** This is the state's primary policy and planning agency in the energy area.
- **California Public Utilities Commission.** The commission is involved with various energy-related regulatory activities.
- **Electricity Oversight Board.** Its responsibilities include monitoring the state's electricity market.
- **California Power Authority.** This entity was created during the state's 2001 electricity crisis to finance new electricity generation and assure an adequate electricity supply for the state.
- **California Energy Resources Scheduling Division within the Department of Water Resources.** This is the entity that currently purchases electricity for the state on behalf of the state's three largest investor owned utilities (IOUs).
- **California Independent System Operator (ISO).** The ISO is a not-for-profit corporation that was created by the state when it deregulated its wholesale electricity industry in 1996. The ISO is not considered a state agency, but was created by the Legislature and is governed by a board of gubernatorial appointees. However, its activities are regulated by the federal government. The ISO is charged with managing the majority of the state's electricity transmission system, in order to ensure competitive access to the grid by all electricity sellers. It also seeks to ensure that the power grid is safe and reliable.

## Highlights

**Governor's Policy Statement.** The Governor's Budget Summary included a lengthy list of actions the administration intends on pursuing to ensure stable supplies of energy at affordable prices. Most of these actions will be pursued through the California Public Utilities Commission (CPUC). However, some of the actions may require legislative action. The administration is pursuing the following actions:

- **Long-Term Energy Contracts.** The administration hopes to encourage utilities to enter into long-term contracts and has directed the CPUC to adopt rules that result in this behavior.
- **Adequate Planning Reserves.** The administration supports, and the CPUC has adopted, a 15 percent electricity reserve margin with implementation by the utilities by 2006.

- **Loading Order.** The administration is working with the CPUC to establish an approach to meeting the state's energy demand that first makes use of cost-effective investments in energy efficiency and demand response. Next, fulfills renewable energy requirements and then pursues fossil fuel generated power plants.
- **Competitive Procurement.** The administration supports establishing a competitive and transparent procurement process at the CPUC that gives the utilities the ability to purchase power at the lowest possible price.
- **Retail Choice.** The administration supports allowing large customers a choice in selecting their power suppliers.
- **Renewable Energy.** The administration supports the acceleration of the Renewable Portfolio Standard mandate of 20 percent renewable by 2017 and 33 percent by 2020.
- **Million Solar Roofs Initiative.** The administration plans to pursue an initiative that will promote the development of one-million solar roofs on residential and commercial buildings.
- **Green Buildings.** The Governor signed an executive order on December 14, 2004 that calls on the state to increase the energy efficiency in its buildings by 20 percent by 2015 and is encouraging the private sector to meet the same goals.
- **Conservation/Demand Response.** The Governor signed an executive order on July 27, 2004 instructing state agencies to take measures to reduce power use especially during peak times of the day and is working with the CPUC to expand demand response programs for summer 2005.
- **Interval Meters/Critical Peak Pricing.** The administration supports the deployment of advanced metering technology and the development of dynamic pricing tariffs.
- **Reduce Electric Rates.** The administration is continuing to pursue the renegotiation of long-term contracts held by the Department of Water Resources and is pushing the Federal Energy Regulatory Commission for additional refunds resulting from market abuses during the 2001 energy crisis.
- **Expand Transmission Infrastructure.** The administration is seeking all opportunities to expand the state's transmission infrastructure to reduce congestion costs and improve reliability.
- **Delay Retirement and Encourage Repowering of Key Power Plants.** The administration is working with the ISO, the California Energy Commission, and the CPUC to manage the retirement of energy generators to avoid problems during peak energy demand times. The administration also encourages the retrofiting of some power plants where cost effective.

**Governor's Reorganization Plan #1.** The Governor has proposed an executive reorganization plan that has been submitted to the Little Hoover Commission. This reorganization plan calls for the elimination of the California Power and Conservation Financing Authority and the Electricity Oversight Board. The plan would transfer the activities of the authority and the board to the California Energy Commission.

**Issues**

**Summer 2005 Energy Resource Adequacy.** The California Energy Action Plan has identified concerns regarding energy resource adequacy during the summer of 2005. Specifically, Southern California does not have an adequate operating reserve under both normal and hot weather conditions. Northern California reserves are adequate, but statewide reserves are low under hot weather conditions for the 2005 summer. The Energy Action Plan has identified several actions to maintain reliability of the energy system statewide, including delaying retirements of some key power plants and accelerating new generation and transmission projects. The Legislature may wish to evaluate these actions to assure the approach is consistent with legislative priorities and provide satisfactory assurances of reliable energy supply for the 2005 summer.

**3360 California Energy Commission**

**Background.** The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission, or CEC) is responsible for forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

**Governor's Budget.** The Governor's budget proposes \$317 million to support CEC in 2005-06. The proposed budget is approximately 17 percent less than estimated expenditures in the current year due to expenditure of a significant amount of accumulated renewable energy funding to help implement the renewable portfolio standard. The department does not receive any General Fund support.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
<b>Type of Expenditure</b>				
Regulatory and Planning	\$27,650	\$25,731	-\$1,919	-6.9
Energy Resources Conservation	30,896	21,954	-8,942	-28.9
Research and Development	327,325	276,560	-50,765	-15.5
Administration	11,399	11,522	123	1.1
less distributed administration	-11,399	-11,522	-123	0.0
Loan Repayments	-6,481	-7,563	-1,082	0.0
<b>Total</b>	<b>\$379,390</b>	<b>\$316,682</b>	<b>-62,708</b>	<b>-16.5</b>
<b>Funding Source</b>				
General Fund	\$0	\$0	0	0.0
Special Funds	362,752	302,026	-60,726	-16.7
<i>Budget Act Total</i>	362,752	302,026	-60,726	-16.7
Federal Funds	9,108	8,911	-197	-2.2
Reimbursements	6,178	5,745	-433	-7.0
Renewable Energy Loan Loss Reserve Fund	1,353	0	-1,353	-100.0
<b>Total</b>	<b>\$379,391</b>	<b>\$316,682</b>	<b>-62,709</b>	<b>-16.5</b>

### Highlights

**Increases Funding for Public Interest Energy Research Program.** The Governor proposes a one-time \$10 million augmentation to the Public Interest Energy Research (PIER) program to bring environmentally safe, affordable, and reliable electricity services and products to the marketplace. These additional funds are available due to a repayment of a loan to the General Fund made in 2003-04.

**Initial Funding for Natural Gas Research Program.** The Governor proposes \$15 million to initiate a natural gas research program that will improve energy efficiency in consumer gas appliances and manufacturing processes.

**Augmentation of Analytical Resources.** The administration is proposing \$796,000 in additional resources to improve the commission's analytical resources. Funding will be used to fund additional staff to support the procurement efforts at the CPUC and municipal utilities, increase analysis of new transportation fuel supply and inventory data, and upgrades to the commission's demand forecasting planning capabilities.

## 3860 Department of Water Resources (California Energy Resources Scheduling Division)

**Background.** The department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

**Governor's Budget.** The Governor's budget proposes \$5.4 billion for electricity purchases and the administration of the CERS division of DWR. This is \$332 million, or 6 percent, below estimated expenditures in the current year, which reflects a slight reduction in the amount of electricity purchased under contract for the budget year.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
<b>Type of Expenditure</b>				
Energy Purchases	\$5,624,128	\$5,292,360	-\$331,768	-5.9
Administration	47,120	47,381	261	0.6
<b>Total</b>	<b>\$5,671,248</b>	<b>\$5,339,741</b>	<b>-331,507</b>	<b>-5.8</b>

**Issues**

**CERS Administration Support.** The CERS division continues to manage billions of dollars of long-term electricity contracts signed during the electricity crisis. The CERS division continues to be financially responsible for the long-term contracts entered into by the department. However, the IOUs manage the receipt and delivery of the energy procured by the contracts. Despite this reduction in responsibilities, the department continues to rely heavily on expensive consulting contracts and personal service contracts. The Legislature may wish to evaluate the department's contracting activities and determine ways in which the state can reduce administrative costs associated with managing these electricity contracts.

**8660 Public Utilities Commission**

**Background.** The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

**Governor's Budget.** The Governor's budget proposes \$1.2 billion to support CPUC in the budget year. This is approximately the same level of funding as is estimated for expenditure in the current year. The commission does not receive any General Fund support.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
<b>Type of Expenditure</b>				
Regulation of Utilities	\$348,239	\$349,890	\$1,651	0.5
Universal Service Telephone Programs	881,347	852,035	-29,312	-3.3
Regulation of Transportation	14,647	15,412	765	5.2
Administration	17,868	16,341	-1,527	-8.5
<i>less distributed administration</i>	<i>-17,868</i>	<i>-16,341</i>	<i>1,527</i>	<i>0.0</i>
<b>Total</b>	<b>\$1,244,233</b>	<b>\$1,217,337</b>	<b>-26,896</b>	<b>-2.2</b>
<b>Funding Source</b>				
General Fund	\$0	\$0	0	0.0
Special Funds	1,230,449	1,203,430	-27,019	-2.2
<i>Budget Act Total</i>	<i>1,230,449</i>	<i>1,203,430</i>	<i>-27,019</i>	<i>-2.2</i>
Federal Funds	1,034	1,052	18	1.7
Reimbursements	12,751	12,855	104	0.8
<b>Total</b>	<b>\$1,244,234</b>	<b>\$1,217,337</b>	<b>-26,897</b>	<b>-2.2</b>

### **Highlights**

**Household Goods Carrier Enforcement.** The Governor proposes to fund increased enforcement of household goods carriers consistent with Chapter 646, Statutes of 2003 (AB 845, Vargas). This legislation addressed serious consumer protection issues dealing with household goods carriers. This proposal also requires a change in law to increase the maximum fee paid by the household goods carriers to enable CPUC to collect sufficient revenues to fully fund this program.

### **Issues**

**California Teleconnect Program.** The Legislature enacted, and the Governor signed, legislation as part of the 2004-05 budget to place limits on the subsidies provided by the commission by requiring the commission to calculate the Teleconnect subsidy after the federal E-Rate program subsidy has been counted against the telecommunications bill. The Legislature also required the CPUC to report on options for improving the Teleconnect Program in effectively addressing the “digital divide”. The Legislature may wish to review this report and take actions to improve the effectiveness of this program.

**Implementation of Energy Efficiency Programs.** The CPUC recently made a decision to reform the administration of the state’s multi-million dollar energy efficiency programs. Many changes were evaluated in determining the best administrative structure for the state’s energy efficiency programs given the changes that have taken place in the marketplace since deregulation of the energy industry. The Legislature may wish to evaluate the recent CPUC decision and evaluate whether it maximizes effective use of the energy efficiency funds collected from ratepayers.

## **8665 California Consumer Power and Conservation Financing Authority**

**Background.** The California Consumer Power and Conservation Financing Authority (California Power Authority, or CPA) was created by Chapter 10x, Statutes of 2001 (SB 6x, Burton), to assure a reliable supply of power to Californians at just and reasonable rates, including planning for a prudent energy reserve. The CPA was also created to encourage energy efficiency, conservation, and the use of renewable resources. The CPA is authorized to issue up to \$5 billion in revenue bonds to finance these activities. Chapter 10x also directs that the operation of the authority sunset on January 1, 2007.

**Governor’s Budget.** The Governor’s budget provides zero funding for CPA in the budget year. The Governor vetoed money provided for continued operations in the current year and CPA operations effectively shut down in Fall of 2004. However, the statute establishing the CPA is still current law.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
<b>Type of Expenditure</b>				
Energy Acquisition	\$10,311	\$0	-\$10,311	-100.0
Planning and Policy Development	166	0	-166	-100.0
Administration	120	0	-120	-100.0
<i>less distributed administration</i>	<i>-120</i>	<i>0</i>	<i>120</i>	<i>0.0</i>
Total	\$10,477	\$0	-\$10,477	-100.0
<b>Funding Source</b>				
General Fund	\$0	\$0	\$0	0.0
Special Funds	10,477	0	-\$10,477	-100.0
<i>Budget Act Total</i>	<i>10,477</i>	<i>0</i>	<i>-10,477</i>	<i>-100.0</i>
Federal Trust Fund	0	0	0	0.0
Reimbursements	0	0	0	0.0
			\$0	0.0
Total	\$10,477	\$0	-\$10,477	-100.0

### Highlights

**CPA Proposed for Elimination.** The Governor is proposing to eliminate the California Consumer Power and Conservation Financing Authority (CPA) as part of his Governor's Reorganization Plan #1 (GRP 1). The GRP 1 proposes to transfer the activities of the authority to the California Energy Commission.

## 8770 Electricity Oversight Board

**Background.** The Electricity Oversight Board (EOB) was created by Chapter 854, Statutes of 1996 (AB 1890, Brulte), which deregulated California's wholesale electricity industry. The board was created to oversee the California Independent System Operator (ISO), which manages the transmission grid serving most of California, and the Power Exchange (PX), which, for a time, was the marketplace in which all electricity in the state was bought and sold. The EOB was also given very broad authority over ensuring reliability of the state's supply of electricity.

**Governor's Budget.** The Governor's budget proposes \$3.9 million to support EOB in 2005-06, which is approximately the same level of expenditures as in the current year. The department does not receive any General Fund support.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
<b>Type of Expenditure</b>				
Administration	\$3,728	\$3,850	\$122	3.3
Total	\$3,728	\$3,850	122	3.3
<b>Funding Source</b>				
General Fund	\$0	\$0	0	0.0
Special Funds	3,728	3,850	122	3.3
<i>Budget Act Total</i>	<i>3,728</i>	<i>3,850</i>	<i>122</i>	<i>3.3</i>
Federal Trust Fund	0	0	0	0.0
Reimbursements	0	0	0	0.0
Total	\$3,728	\$3,850	122	3.3

### Highlights

**Electricity Oversight Board Proposed for Elimination.** The Governor is proposing to eliminate the Electricity Oversight Board (EOB) as part of his Governor's Reorganization Plan #1 (GRP 1). The GRP 1 proposes to transfer the activities of the authority to the California Energy Commission.